

REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE THABO MOFUTSANYANA DISTRICT MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Thabo Mofutsanyana District Municipality, which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Thabo Mofutsanyana District Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. As disclosed in note 24 to the financial statements, the municipality is the defendant in a levy rate dispute. The municipality has appealed against the first ruling, which was in favour of the levy payers. The final outcome of the matter cannot presently be determined and the receivables from non-exchange transactions amounting to R49 079 862, as disclosed in note 7 to the financial statements, have been impaired. No provision for the estimated legal costs payable to the attorneys acting for the levy payers that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in notes 26 and 27 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered during the 2010-11 financial year in the financial statements of the municipality at, and for the year ended, 30 June 2010.

Irregular expenditure

10. As disclosed in note 33 to the financial statements, irregular expenditure amounting to R8 430 598 was incurred, as proper tender processes were not followed and the supply chain management (SCM) policy of the municipality was not complied with.

Additional matter

I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

11. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

13. There are no material findings on the report on predetermined objectives.

Compliance with laws and regulations

Annual financial statements, performance report and annual report

14. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements in liabilities and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Audit committee

15. A performance audit committee or another committee functioning as the performance audit committee did not perform the following functions as required by Municipal Planning and Performance Management Regulation 14:
- Review the municipality's performance management system and make recommendations in this regard to the council of the municipality.
 - Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

Internal audit

16. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that:
- Internal audit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review.
 - Internal audit did not report to the audit committee on the implementation of the internal audit plan.
 - Internal audit did not advise the accounting officer on matters relating to internal audit.
17. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required by section 45(1)(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) and Municipal Planning and Performance Management Regulation 14.

Procurement and contract management

18. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of SCM Regulation 17(a) and (c).
19. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of SCM Regulations 19(a) and 36(1).
20. Awards were made to providers whose tax matters had not been declared to be in order by the South African Revenue Service, as required by SCM Regulation 43.
21. Awards were made to suppliers who did not submit a declaration on their employment by the state or their relationship to a person employed by the state, as per the requirements of SCM Regulation 13(c).
22. A list of accredited prospective providers was not in place for procuring goods and services through quotations, as required by SCM Regulation 14(1)(a).

Expenditure management

23. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

INTERNAL CONTROL

24. In terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Leadership

25. Management did not exercise oversight responsibility regarding compliance with laws and regulations and related internal controls.

Financial and performance management

26. Management did not review and monitor compliance with applicable laws and regulations. This resulted in non-compliance that could have been prevented.
27. The municipality did not in all instances effectively implement controls to ensure accurate and complete processing of transactions, which resulted in errors that were corrected in the financial statements.

Governance

28. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including fraud prevention, were conducted and that a risk strategy to address the risks was developed and monitored.
29. Management did not ensure that there was an adequately resourced and functioning internal audit unit that identified internal control deficiencies and recommended corrective action effectively.
30. Management did not ensure that the performance audit committee or another committee functioning as the performance audit committee adequately served as an oversight function with regard to performance management.

Auditor-General
Bloemfontein

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

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